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Dear stakeholder

Open letter – Local lines networks: achieving better outcomes for consumers now and in the future

The purpose of this open letter is to:

- outline our intention to work with sector stakeholders to establish a clearly articulated view on what 'good' performance for a local lines network / Electricity Distribution Business (EDB) looks like;
- develop priority areas to support targeted improvements across the sector; and
- clearly signal our intention to apply stronger and more direct financial and reputational incentives than in the past to promote change where required.

While some EDBs are putting in place clear initiatives to meet future challenges, improve efficiency and optimise utilisation of their networks through effective asset management and commercial arrangements, these efforts do not appear to be systematic across EDBs. At this time, we consider stronger regulatory action is likely to be needed to promote the long-term benefits of consumers.

Context

Local lines networks are fundamental to everyday lives and to economic growth. Higher-than-efficient line charges harm our living standards – they reduce consumers' welfare and are a drag on the country's productivity. Households and businesses of all sizes use the electricity network every day and are paying for increasing costs. They should be able to have confidence that this critical infrastructure provides value for money and is reliable.

High-quality business as usual (BAU) network management and investment remain critical, as well as an increased focus on resilience planning and investment.[1] To achieve better outcomes for consumers, it is critical that services are delivered efficiently, network capacity is optimised and spending is prioritised to meet current and future demands.

While there is uncertainty about the pace, location and timing of electrification, many of the key drivers are known/knowable and present both risks and opportunities. For example, the increasing load through growing take-up of electric vehicles (EV), impacts

[1] We have recently released and received submissions on draft guidance for 'Resilience principles for investment decision-making'. These documents are available on our website.

of solar panels and process heat electrification. We recognise that the pace of change may differ across EDBs and geographical areas. EV uptake may be stronger in higher income areas, but eventually all EDBs will confront the challenges associated with a more highly electrified future and need to be prepared for it.

Given affordability is a growing challenge for many consumers, it is important that EDBs are delivering the fundamentals well. This means not only actively managing costs, but also looking for and making efficiency improvements, and being well prepared to provide a platform that supports innovation and investment by others.

More than ever before, modern asset management approaches, more capable digital systems, network monitoring and control systems offer significant potential for improved asset management and investment decisions. This includes making the most out of existing assets by avoiding premature replacement or upgrades. Consumers should not be disadvantaged by a lack of capacity and capability to use these modern asset management approaches.

Nor should consumers be disadvantaged by a failure to effectively use the flexibility associated with consumer loads/resources such as EV charging that can be orchestrated through cohesive pricing and contracting approaches.

These expectations are consistent with the Minister for Energy's letter to EDB chief executives and recent statements that there is a clear opportunity to address fragmentation, lift performance and reduce duplication and unnecessary costs through stronger collaboration and standardisation between EDBs.[2]

We acknowledge there are other things happening in this space, which could impact on our work programme, but consider we can progress this engagement while being mindful of the impacts of those in developing our work programme.[3] We particularly draw attention to the consultation from the Ministry of Business, Innovation and Employment (MBIE) on "Options to improve the efficiency of electricity distribution businesses" which includes similar considerations to those proposed here and potential changes to the legislative framework which applies to EDBs.[4]

Establishing a vision statement for the sector

We want to work with sector stakeholders to establish a clearly articulated view on what 'good' performance for an EDB looks like, so we are all clear on prioritised industry outcomes and can ensure our regulatory settings are aligned to promote those outcomes.

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[2] Minister for Energy letter to EDB Chief Executives (7 July 2026).

[3] Relevant engagements include, but are not limited to Electricity Authority 'Distribution Pricing; Network visibility; Future system operations'; Commerce Commission 'Ensuring our approach to price paths is delivering for consumers'; Joint initiatives 'Efficient investment in non-network solutions'; 'Energy competition taskforce'; 'Competition in Connections'.

[4] MBIE 'Consultation on options to improve the efficiency of electricity distribution businesses'.

The vision is EDB centric, given our regulatory role, but it is focused on a vision for the sector which will result in the delivery of outcomes for consumers that are to their long-term benefit.

Our indicative vision for the sector is:

- EDBs have the capacity, capability and incentives to efficiently deliver the fundamentals well and are prepared for a more highly electrified future:
    - **EDBs delivering core network operations well**: asset management, network operations, maintenance, network planning, resilience, business continuity and network investment are delivered efficiently and effectively to provide reliable services to consumers.
    - **EDBs having strong commercial arrangements in place**: pricing structures, connection processes, service offerings and contracting approaches with consumers or their agents promote efficient utilisation of network assets, non-network solutions and support efficient investment decisions.
    - **EDBs building capability for the future**: workforce planning, procurement capability, systems, processes and organisational capability support adaptation to changing technology, digitalisation, customer needs and increasing electrification, with key insights shared with the sector.

We also want to be clear what we think the future is not:

- **Consumers paying for inefficiency**: the limitations of small scale or costs arising from ineffective capability and capacity in terms of costs, quality of service and resilience should be borne by shareholders not consumers, consistent with workably competitive market outcomes.

Outcomes from achieving the vision

To achieve the vision, it is important to have clear and agreed outcomes to focus effort and enable coordination where appropriate.

We recognise that stakeholders may have different views on good performance, the gap to existing performance, and accordingly what our strategic priorities for focus should be.

Our preference is for the Commission's priorities and desired outcomes to be aligned with a consensus view reached between EDBs, other regulators, consumer groups and other stakeholders on what good looks like. However, we recognise we will likely need to exercise judgement where a consensus cannot be reached, given our role and the evolving context and complexity of the sector.

Our initial view of likely outcomes from achieving the vision and some underlying actions/objectives are:

- *Efficiency improvements put downwards pressures on costs*
    - **Benefits of scale are better realised**: Joint procurement, common design standards and asset management systems, and more efficient levels of overheads;
    - **Operating costs are minimised while maintaining service levels:** Support functions are efficient, value adding and contribute to the effectiveness of service delivery to consumers, including improved employee utilisation rates through adoption of the Common Competency Framework;[5]
- *Better planning and monitoring make electricity networks more reliable and resilient, with improved utilisation*
    - **More targeted and better value capex programmes**: Asset replacements and resilience related investments are driven through robust data, analytics, engagement and risk profiles for whole of lifecycle cost and acceptable risk to consumers;
    - **Improved clarity and visibility of system costs**: Asset utilisation is optimised by a suite of tools including pricing and flexibility. Higher usage of data analytics and asset visibility for optimal timing of network upgrades with underlying forecasts being transparent, robust, data driven and consistent; and
- *Reduced costs for stakeholders of interactions with EDBs*
    - **Common streamlined interfaces and processes** are applied for third parties, including pricing structures and terms, connection processes and network information, reducing costs on other sector stakeholders and improving internal efficiencies.

What might this mean for our regulatory rules

We recognise our regulatory regime may need to evolve to ensure effective rewards and consequences are in place to achieve the desired outcomes.

Below are examples of potential regime changes which could be implemented which align with the vision outlined above.

These are intended to be illustrative, not exhaustive, and identify some of the boundaries that could be explored. This includes evolving the Input Methodologies

[5] The Common Competency Framework (CCF) sets the minimum levels of knowledge, skills, and experience required for anyone working on or near distribution network assets and is administered by the Electricity Engineers' Association (EEA) 'https://eea.co.nz/what-we-do/capability-development/common-competency-framework/'.

(IMs) and price-quality path approach. Our focus is primarily on what can be achieved before the next default price-quality path reset (DPP5) but is not limited to this.

It is important to recognise that for some changes the value to consumers will accumulate over the longer term through a lower Regulatory Asset Base (RAB).

EDBs delivering core network operations well

- EDBs are rewarded through regime incentives, including streamlined allowance acceptance paths for the application of higher quality asset management practices, such as ISO55000.
- Operating costs are assessed using standardised cost per installation control point (ICP) for back-office functions.
- Consumer compensation regime for consequential failures arising from inadequate capability (e.g., cyber-based network outages due to immature cyber defences).
- Capitalisation of new commissioned assets at full value only if procured on a standardised specification and through an "at scale" procurement arrangement.

EDBs having strong commercial arrangements in place

- EDBs are rewarded for efficient network utilisation through greater application of utilisation metrics in assessing expenditure programmes and incentive outcomes.
- Streamlined acceptance path for capex where pricing structures provides clear signals to optimise network capacity utilisation.
- In future, reduce capitalisation into the RAB of non-point-load system growth expenditure, where an EDB has failed to deliver meaningful flexibility incentives through pricing and localised contracting arrangements and/or lacks capability to manage/orchestrate flexible demands (i.e., lacks sufficient distribution system operation (DSO) functionality[6]).

EDBs building capability for the future

- Larger innovation-based funding mechanisms with a wider scope where EDBs are applying leading practice.
- The legitimate efficient costs of enablement/transformation should be compensated.[7]

[6] For clarity, we are not suggesting that all EDBs should be shifting to full-functioning DSO capability, but they should have capabilities – potentially shared with others -appropriate to the nature of demand-drivers and opportunities for load management confronting the network at different points in time.

[7] We consider the existing regulatory regime incentivises and enables efficient transformation by EDBs but recognise there may be additional tools which would further support our objectives.

- Innovative and Non-traditional Solutions Allowance (INTSA) for preparation for operation of DSO functionality on an EDB's network, leveraging off activities already undertaken by other EDBs and collaboration.
- Capitalisation and depreciation of costs incurred in transactions which result in aggregation of EDBs, which would otherwise be recognised as opex.

We want to hear your views

While we acknowledge there will be some challenges to implementation and exceptions to general positions, we consider there need to be improvements from the status quo. We expect the sector can identify which areas could deliver the most value for consumers, including through effective regulatory design.

Particular questions for stakeholder feedback

There are a number of questions on which stakeholder feedback would be particularly welcome:

1. Is the proposed future state focus of EDBs delivering core network operations well, having strong commercial arrangements in place and building capability for the future appropriate?

2. Are there aspects which you consider are not adequately addressed within the Vision statement which are either impacting performance now, or are likely to in the future?

3. What are the industry's priorities, based on the needs of current and future consumers, and are we aligned?

    3.1. Where are the biggest areas of focus where a material difference can be made for consumers and the potential hierarchy (priority) of these?

    3.2. How should priorities be valued/evaluated, and what level of assessment or quantification may be good enough for proposed regulatory interventions?

4. How are EDBs internally determining the capabilities required to deliver most effectively and efficiently for their consumers and setting the path towards a future state? What is this compared against? Is there a specific set of Board level metrics which are tracked or specific information which it would be useful to require for disclosure to the Commission to better allow comparison?

5. What is needed from regulators/regulation/legislation to enable achievement of the vision and outcomes?

    5.1. What other enablers are important or essential within our, or other, regulatory regimes?

    5.2. What should we deprioritise/reduce regulatory burden on?

6. What timescales are feasible?

    6.1. For EDBs, do you have a clear work programme which identifies when certain capabilities or insights will be more readily accessible?

7. For smaller EDBs, where cost is identified as the key reason for not progressing system or capability development - how is the impact of this assessed and quantified?

8. What are the barriers to increased consolidation and standardisation within the Part 4 regime? What is needed to overcome or reduce these barriers?[8]

9. Are there particular proposed potential regime changes where you consider alternative approaches may be more impactful and easily implemented by both EDBs and the Commission?

10. On the Commission's process from here – how do you think our work programme could be best developed in coordination with the sector?

Developing our work programme

We intend to consider stakeholder feedback on this open letter in development of our work programme.

We recognise that the Minister for Energy, Electricity Authority (EA), Energy Efficiency & Conservation Authority (EECA), MBIE and others (Transpower etc) are also engaging with sector stakeholders. We continue to engage across the regulatory system and intend to continue to focus on alignment of our work programmes where feasible.

A note on ownership

The Commission understands that communities may prefer to own their electricity infrastructure assets. Nevertheless, we consider that it is appropriate for smaller businesses to actively consider whether scale-related efficiencies can be best achieved via collaborative activity which may have high transaction costs, or through ownership consolidation. For example, consumer-trust mergers can retain consumer ownership interests of local assets, achieve scale improvements and bring other benefits such as diversification of risks (e.g., financial resilience and better spreading the costs of localised high impact events across a wider group of consumers – an insurance-like benefit). Noting the significant benefits that modern digital systems, data analytics and control systems can bring to networks, it is important that consumers of smaller EDBs do not miss out on those benefits or pay excessive prices to achieve those benefits.

[8] We note this question is similar to that contained within the MBIE 'Consultation on options to improve the efficiency of electricity distribution businesses'. We will also consider submissions on the MBIE Discussion document on barriers to increased consolidation and standardisation.

We encourage governors of smaller EDBs to take an objective review of the merits of different ownership options to deliver the best, most cost-efficient outcomes to their consumers over the longer term. We welcome views on how regulation can support sector aggregation, recognising that there may be short-term costs associated with aggregation to achieve a stronger long-term operating position.

Providing your feedback

We welcome all feedback on this letter by **5pm, 22 October 2026**. You can also contact us in this time if you think that you will be receiving or developing information after this date that would be useful for us to consider. Responses should be addressed to:

> Simon Wakefield
> c/o infrastructure.branch@comcom.govt.nz;
> 'Feedback on open letter – local lines networks' in the subject line of your email.

We intend to publish feedback we receive, unless there is a clear and explicit request to not publish it due to confidentiality or commercial sensitivity. We will consider any such requests on their merits.

All submissions will be read by the Commission team. AI may be used to aid summarising submissions and distilling key points made across submissions.

Ngā mihi

Nathan Strong

Associate Commissioner

Chair of the Commission's Infrastructure Regulation Committee